PART II—FAMILY TAX PLANNING

INTRODUCTION

Part II will consider some of the most important tax problems and tax saving opportunities in family tax planning. Typically, in the case where a business is involved in the family picture, our tax planning discussions may encompass business subjects as well—a division of the business entity; or a shift in voting control and equity ownership from the older to the younger members; or a buy and sell agreement. This discussion covers only a segment—albeit the major segment—of family tax planning. We will deal with those aspects of the subject pertaining to family gifts, joint and survivorship property, the short-term trust, life insurance, and, turning to testamentary planning, the marital deduction, what to do with property not included in the marital deduction gift, and what special problems should be considered in planning the wife's estate.

FACTS

To set the stage for this discussion we have conjured up a hypothetical client, Earl Beaver, who has consulted us because he needs a new will. Earl is also interested in any suggestions we might have for reducing his income taxes. Earl is fifty years old, and has a wife, Betty, age forty-eight. They have two children, Linda, twenty-three (she is married to a medical student, age twenty-four, and has two small children), and Larry, seventeen (he is single). Betty's mother, who is seventy-five years of age, is entirely dependent upon the Beavers for her support.

Earl is a manufacturer's representative and his annual income averages $70,000 a year principally from the following sources:

Salary from Manufacturer's Representative, Inc.	$50,000
Dividends from Manufacturer's Representative, Inc.	5,000
Other dividends	4,000
Net rental income	10,000

Earl and Betty now have one-page wills in which each leaves everything outright to the other. Their estates are approximately as follows (at fair market values except as otherwise noted):

PROPERTY OWNED BY EARL

Life insurance on his life:

	Cash Value	*Face Amount*
(a) 20-pay life (paid up)	$ 5,000.00	$10,000.00
(b) Endowment at age 60	9,500.00	20,000.00
(c) Ordinary life	4,000.00	60,000.00

(d) National Service Life Insurance (term)		10,000.00
Listed securities		95,000.00
Commercial real estate	70,000.00	
Less mortgage	10,000.00	60,000.00
Apartment house		40,000.00
100% of stock of Manufacturer's Representative, Inc.		55,000.00

PROPERTY OWNED BY BETTY

Listed securities	$ 8,000.00
Jewelry and other personal property	4,000.00

PROPERTY OWNED BY EARL AND BETTY JOINTLY

Checking account in the names of Earl and Betty and the survivor of them (deposits made by both)	$ 5,000.00
Series E Bonds in names of "Earl or Betty" (purchased by Earl)	15,000.00
Residence in names of Earl and Betty and the survivor of them (paid for by Earl)	40,000.00

During the course of the ensuing discussion we will attempt to cover some of the problems—and some of the tax saving opportunities—which should be considered in planning the affairs of our hypothetical Mr. and Mrs. Beaver.